

# Order 719: Economic Analysis Criteria for “Major” Market Initiatives

Consumer Liaison Group

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# Background: Order 719

- October 2008, FERC issued its Final Rule to improve the operation of organized wholesale electric markets
- One area in the Order obligated each RTO and ISO to make reforms, as necessary, to increase its responsiveness to customers and other stakeholders
  - FERC is to assess each RTO's or ISO's compliance using four responsiveness criteria: (1) inclusiveness; (2) fairness in balancing diverse interests; (3) representation of minority positions; and (4) ongoing responsiveness.

# Order 719 Working Group

- ISO-NE believed it was compliant with Order No. 719, but agreed to participate in further evolution
- A stakeholder working group was established to consider responsiveness issues
  - The steering committee included representatives of NEPOOL, state regulators, consumer advocates, and ISO-NE
- RTO Responsiveness WG explored and developed proposals
  - Included concepts of cost consciousness and economic analysis for ISO-NE's mission statement

# Status of Order 719: Mission Statement Changes

- Voted by NEPOOL Participants Committee
  - 95.42% in favor
- Order pending from FERC on change
- The proposals adopted by the ISO will change ISO-NE's Mission Statement

# ISO New England's Mission

- “(a) to assure the bulk power supply within the New England Control Area conforms to proper standards of reliability;
- (b) to create and sustain open, non-discriminatory, competitive, unbundled markets ....”
- “In fulfilling this mission and consistent with the preceding principles, the ISO shall strive to perform all its functions and services in a cost effective manner, for the benefit of all those served by the ISO.”
  - Addition from Order 719

# Order 719 Addition to Mission: Qualitative/Quantitative Assessments

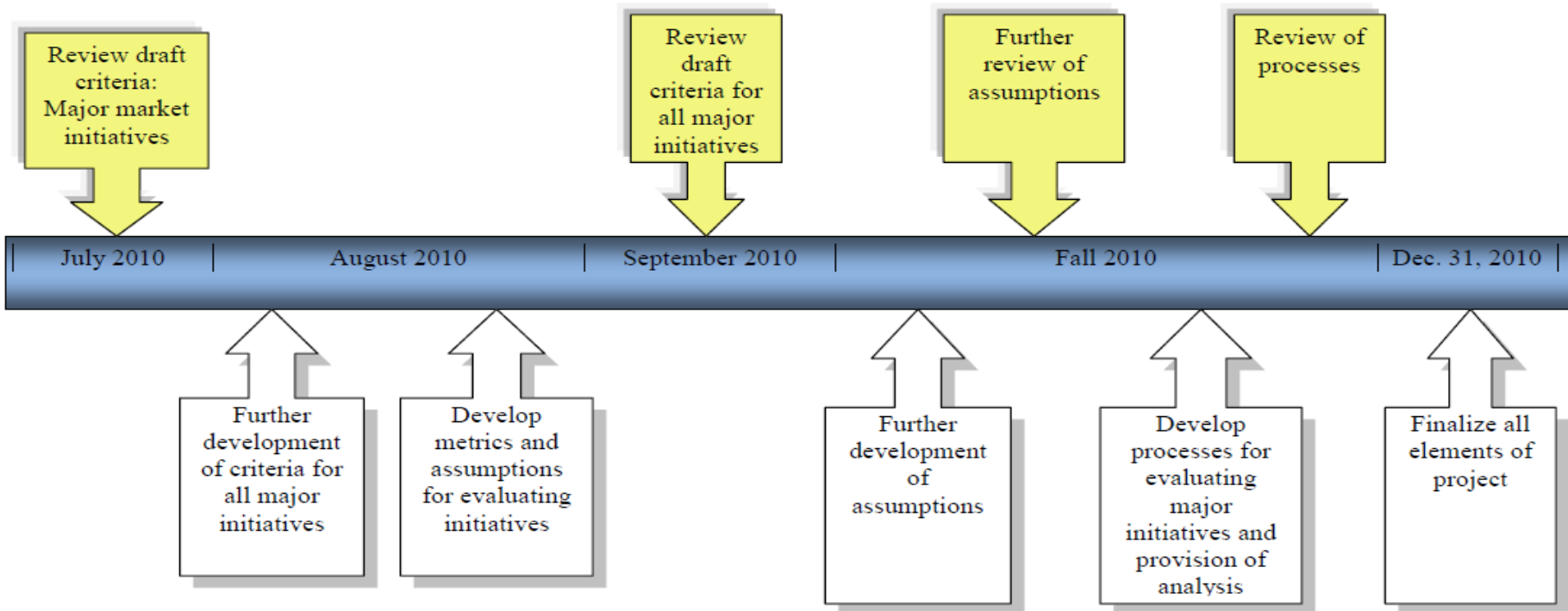
- “To assist stakeholders in evaluating any major ISO initiative that affects market design, system planning or operation of the New England bulk power system, the ISO will provide quantitative and qualitative information on the need for and the impacts, including costs, of the initiative.”
- Increases transparency
  - Allows stakeholders to understand ISO-NE’s reasoning for the change and have the opportunity to discuss it
  - Enables stakeholders to make informed policy choices

# Status of Economic Analysis Proposal

- ISO-NE is currently providing cost impacts on initiatives, as requested
- ISO-NE is already turning toward implementing the practice of providing quantitative and qualitative information on major initiatives
- ISO-NE is working with The Brattle Group to develop tools and metrics for the analysis
- ISO-NE to work with stakeholders to refine the assumptions and process

# Next Steps

## Economic Analysis Time-line



Note: Items in **yellow boxes** reflect Stakeholder Review

# Step 1: Establish Criteria for Determining Whether an Initiative is “Major”

- Need to be able to classify initiatives objectively, since “major” initiatives will trigger action by ISO-NE to provide qualitative and quantitative information
  - Will need to focus on initiatives that are very costly, risky, controversial, or have large impacts,
  - Will need to exclude minor initiatives
- First, we will develop criteria for major market initiatives, followed by criteria for system planning and operations initiatives
  - May apply more *ad hoc* approach to operations initiatives

# Determinative Characteristics

## Market Impact

- Size of market affected
- Amount of resources/load substantially affected

## Controversy and Drivers

- Participants affected directly or expressed interest
- States identified as key issue
- Complying with a prescription in a FERC order?

## Riskiness

- Fundamental redesign vs. implementation of existing design principles
- Experience in ISO-NE or other RTOs
- Impacts on other ISO-NE markets or functions

## Implementation Costs

- For ISO-NE
- For participants

# Proposed Classification Criteria

- We developed two sets of criteria:
  - At minimum, a major initiative should be:
    - Controversial, with multiple participants affected and interested or States say it is a key policy issue
    - Significant change, i.e., fundamental or substantial adjustment to market design, as opposed to implementation of existing principles
    - Not following a prescription in a FERC order
  - In addition, at least one of the following must be true:
    - Risky, with little experience, and will affect other ISO markets and functions
    - Broad/deep market impact, either having a moderate impact on a large market or a large impact on a smaller market
    - Large implementation costs for ISO-NE or participants

# Example Application of Classification Criteria to Past Initiatives

Major Initiatives	Reason (in addition to the 3 minimum conditions)
DR Integration	Market impact and implementation costs
PRD	Market impact and implementation costs
FCM WG/Redesign	Market impact and implementation costs
Minor Initiatives	Reason
FCM Phase 3	None of the “additional” conditions hold, and not a substantial design change
FCM Manual Updates	None of the “additional” conditions hold, and not a substantial design change
FCM Market Rule 1 Conforming Changes	None of the “additional” conditions hold, and not a substantial design change
FRM Enhancement	None of the “additional” conditions hold, and not very controversial
Competitive Offers FCM Imports	Did not involve many stakeholders directly
Order 719 Compliance (DR)	Moderate implementation cost, but not a substantial design change and not very controversial

# Step 2: Establish ISO-NE Approaches for Analyzing “Major” Initiatives

- Later, we will establish the types of “qualitative and quantitative information” that the ISO will perform for various classes of major initiatives
  - Identify appropriate tools and assumptions that can be used
    - Classify types of cases to be analyzed with standard tools
  - Obtain stakeholder input on assumptions
  - Establish a roadmap for timing and process
    - Further steps

# Appendix: Details of Classification Criteria

# Initiative Characterization Questions

No.	Characteristic	Threshold(s)
1	Type of initiative	a: Market design b: System planning c: System operations
2	How extensive is the initiative?	a: Redesign b: Substantial adjustment c: Implementation (including conforming changes)
3	Is the initiative necessary to comply with a FERC order?	a: No b: Yes, but the FERC order was not prescriptive c: Yes, following a prescription in the order
4	How well-tested is the initiative here or in other regions for success and/or unintended consequences?	a: None b: Limited (at least one similar RTO for $\leq 1$ year) c: Substantial (at least one similar RTO for $> 1$ year)

# Initiative Characterization Questions (cont.)

No.	Characteristic	Threshold(s)
5	Size (value) of the market(s) where the initiative is being introduced	a: ≤ \$400 million b: > \$400 million and ≤ \$1.6 billion c: > \$1.6 billion
6	Volume added/disqualified as a result of initiative	a: ≤ 320 MW b: > 320 MW and ≤ 3,200 MW c: > 3,200 MW
7	Volume whose revenues, costs, risks or incentives are significantly and directly affected	a: ≤ 320 MW b: > 320 MW and ≤ 3,200 MW c: > 3,200 MW
8	How substantial are the likely changes to revenues, costs, risks or incentives for the affected resources or load	a: Small b: Large
9	Likely consequences for other markets in ISO-NE (including but not limited to energy, capacity, regulation, reserves, FTRs)	a: No/little impact b: Moderate impact c: Potentially large impact (with a short description of the potential impacts)
10	Likely consequences for other ISO-NE functions (Market Design, System Planning, and System Operations)	a: No/little impact b: Moderate impact c: Potentially large impact (with a short description of the potential impacts)

# Initiative Characterization Questions (cont.)

No.	Characteristic	Threshold(s)
11	ISO-NE Implementation cost	a: ≤ \$250K b: > \$250K and ≤ \$1 million c: > \$1 million
12	Stakeholder implementation cost (Have many stakeholders indicated high impl. cost?)	a: No b: Yes
13	Participants directly affected	a: One sector of Participants b: Two-three sectors of Participants c: Four-six sectors of Participants
14	Participants identified their interest in the initiative as a key issue (supporting or opposition)	a: One sector of Participants b: Two-three sectors of Participants c: Four-six sectors of Participants
15	Have the states identified the initiative as a key policy issue?	a: No b: Yes, one state c: Yes, more than one state

# Classification: Necessary Criteria

	Criteria	Score
<b>Necessary Criteria</b> ( <u>a</u> ll must be true for "major")	Controversial	Multiple participants are affected and interested (13b/c and 14b/c) or States say it's "key" (15c)
	Significant change	"Fundamental" or "substantial adjustment" to market design (2a/b)
	Not following a prescription in a FERC order	No FERC order, or not prescriptive (3a/b)

# Classification: Additional Criteria

<b>Additional Criteria</b> (At least one of these and <u>all necessary conditions</u> must be true for “major”)	Risky (little experience, interconnected)	Fundamental redesign (2a) and little experience (4a/b) and [impacts other markets (9c) or other functions (10c)]
	Broad/deep market impact (large market with moderate impact)	Affects large market (5c) and {med-large volume added or disqualified (6b/c) or [med-large volume directly affected (7b/c) and the effect on such volume is large (8b)]}
	Broad/deep market impact (smaller market with large impact)	Affects moderate-sized market (5b) and {large volume added or disqualified (6c) or [large volume directly affected (7c) and the effect on such volume is large (8b)]}
	Large implementation costs for ISO-NE or stakeholders	For ISO-NE (11c) or Participants (12b)